

# Entrepreneurship and Private Sector Development in Ghana: The Government's MASLOC & NBSSI Initiatives

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**Abstract**

This paper focuses on entrepreneurship and private sector development in Ghana with regard to the government's initiative towards supporting private sector development through the Microfinance & Small Loans Centre (MASLOC) and the National Board for Small Scale Industries (NBSSI) initiatives to support new and existing small and medium-scale enterprises (SMEs) in diverse industries. The study addresses some of the main problems facing the two government-sponsored initiatives and issues with accessing venture capital for business start-ups in Ghana. The objective of the study is to identify possible strategies through which the MASLOC and NBSSI could be improved to serve the needs of their customers more effectively and efficiently. Enhancing the performance of these public organizations could offer many SMEs in Ghana take advantage of the new opportunities in the domestic and global business environments. The questions to be addressed are; to what extent do the activities of the NBSSI and MASLOC meet the needs of SMEs in Ghana? What challenges are associated with their services and how can management of the two organizations address the challenges they face more appropriately? The methodology is based on the qualitative and quantitative approaches, involving interviews and the administration of questionnaires and surveys to achieve the study's objectives and goals. Based on the identified challenges, the study concludes with findings and recommendations for the management of NBSSI and MASLOC as well as entrepreneurs engaged in different SMEs in diverse industries and policy makers.

**Key words:** Ghana, Entrepreneurship, Private sector development, Government, MASLOC, NBSSI

## **1 Introduction**

The dawn of the 1980s saw the introduction of the neoliberal development approach to replace the statist model which had dominated the 1970s. Neoliberalism, a development ideology which emerged in the mid-1970s as a “theory of political economic practice proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade” (Harvey, 2005). This development approach marked the end of the state led development model of the 1970s in favour of a free market or the neoliberal approach. Ghana was not exempted from the prevailing development trend. The success of free market in reducing poverty and promoting the expected growth and development in the Newly Industrialized Economies (NIE) in Asia in the 1980s influenced the development programmes of most developing nations through the promotion of the private sector. In Ghana, for instance, the National Board for Small Scale Industries (NBSSI) was established in 1985 by an Act of Parliament (Act 434 of 1981) to ensure that Micro and Small Enterprises (MSE) have adequate access to high quality, affordable and accessible business support services through the provision of client-focused programmes, supported by superior customer service and building strong relationship with stakeholders (NBSSI, 2017).

Besides NBSSI, successive governments in Ghana have introduced programmes, projects and policies to provide the needed capacity to promote the MSE and the private sector in the country. Prominent among the initiatives include the Presidential Special Initiative (PSI), Local Enterprise and Skills Development Programme (LESDEP), Ghana Youth Enterprise and Entrepreneurial Development Agency (GYEEDA), Captains of Industry Programme and Students in Free Enterprise Programme (SIFE); Skills Training and Entrepreneurship Programme (STEP). In 2006, the Microfinance and Small Loans Centre (MASLOC) was introduced by the government of Ghana as the microfinance apex body for implementing microfinance programmes, reducing poverty, creating jobs and wealth in Ghana (Quansah, Amankwah and Aikins, 2012).

In the midst of the avalanche of policies, projects and programmes, entrepreneurial development in Ghana has not seen the desired success to promote the private sector. This study therefore interrogates the challenges confronting state implemented entrepreneurial policies and programmes, especially the NBSSI and MASLOC in promoting the private sector in Ghana by reviewing the trends of resource disbursement to beneficiaries and the impact of the governments public sector development (PSD) initiatives on emerging entrepreneurial class and SMEs and how to make the facilities more beneficial to the stakeholders in the country.

## **2. Literature Review**

### **2.1. Theoretical Framework**

This study is informed by three main theories- the psychological entrepreneurship theory, sociological entrepreneurship theory and the resource-based entrepreneurship theory. The psychological entrepreneurship theory was propounded by Landstrom (1998). This theory is based on the view that personal traits play significant role in influencing entrepreneurship inclination. Personality traits such as need for achievement and locus of control determine the entrepreneurship orientation of an individual. The need for achievement (McClelland, 1961) for instance, argues that human beings have the innate ability to excel in all endeavours and therefore individuals with high need for achievement succeed in entrepreneurship as well (Johnson, 1990). The locus of control (Rotter, 1966) explains that an individual's orientation of the cause of an action also influences entrepreneurship development. A

person with internal locus of control believes that actions and consequence of actions are within his control. This orientation leads to hard work, accountability and innovation, leading to entrepreneurship.

Sociological entrepreneurship theory (Reynolds, 1991) has also identified social context as a major determiner of entrepreneurial inclination. According to Reynolds, social networks, life circumstances, ethnic identification and environmental factors determine the development of entrepreneurs. Resource-based entrepreneurship theory (Alvarez & Busenitz 2001), has also subscribed the development of entrepreneurship abilities to availability of resources such as financial capital, social capital and human capital. With this orientation, a society with adequate resources will produce more entrepreneurs than a resource scarce society. This theory fits the topic under discussion because the study seeks to establish the relationship between the provision of government resources such as the NBSSI and the MASLOC initiatives in entrepreneurship development.

## **2.2. Overview of NBSSI and MASLOC Models**

The NBSSI was established as the apex governmental body to develop the private sector through the promotion of SMEs in Ghana. The NBSSI is an agency under the Ghana's Ministry of Trade and Industry. Though the agency is headquartered in Accra, it has secretariats in all the ten (10) regional capitals in Ghana and Business Advisory Centres (BAC) in the one hundred and seventy (170) district capitals in the country ([www.nbssi.gov.gh/services](http://www.nbssi.gov.gh/services)). The NBSSI provides both financial and non-financial services to clients through the BACs. The non-financial services include the following:

- a) Facilitating access to enabling environment through the provision of the requisite platform for entrepreneurs to display their products to the target market; providing the necessary information to entrepreneurs to enhance their operations as well as making available all the available resources to entrepreneurs.
- b) Facilitating access to credit by providing the needed advice and information on how to access and utilize credit facilities. In addition, entrepreneurs are also trained on how to improve upon their accounting principles and business records.
- c) Provision of training and counseling of entrepreneurs in good market practices; fundamentals of management; access to local and foreign markets as well as business plan development.
- d) Support to business associations is another non-financial support that NBSSI gives to businesses in Ghana. These are done through promotion and strengthening of MSE businesses associations as well as helping associations to structure their operations.

The financial services provided by the NBSSI include the provision of credit facilities to entrepreneurs to enable them acquire working capital and fixed assets. The facilities available to clients presently include the following schemes:

- NBSSI Credit Scheme provides loans which amount to the tune Ghc 10, 000.00 with repayment period between 1-3 years and an interest rate of (lower than the market premium).
- Collaborative Credit Schemes with Municipal and District Assemblies is another form of financial facility given to Ghanaian entrepreneurs based on project estimations, and the repayment is usually 1 year subject to a moratorium of usually 1-2 months. The interest rates are also determined by the administrators of the facility.

MASLOC was also established with the goal of providing small enterprises in Ghana, a reliable access to microcredit and loans through three major credit schemes. These credit schemes include:

- ❖ A microcredit/group loan scheme is fashioned after the Grameen bank concept where credit facilities are advanced to groups of people. Under the MASLOC group loan, credit of about GHc 100.00-Ghc 500.00 is advanced to cooperatives of not more than 25 persons in a group. The membership serves as collateral to the repayment of the loan. Future credit is incumbent upon the repayment of the initial credit given to members. In other words, a default in loan repayment will mean the group will cease to benefit from future credit from MASLOC. Maingwa (2012) argues that the group lending is a strategy designed to encourage self-selection which will minimize the risk of default in repayment.
- ❖ Individual loan scheme is the second type of loan facility from MASLOC to beneficiaries. Under this scheme, a qualified individual is able to access between Ghc 1000.00-Ghc 10 000.00.
- ❖ Wholesale lending is another form of facility made available to clients through on-lending. Rural Banks, Ministries, Departments and Agencies are granted loans by MASLOC for on-lending to small scale enterprises in the country.

### **3. Methodology**

The study adopted the mixed approach, both qualitative and quantitative approaches to examine the possibility of NBSSI and the MASLOC in promoting entrepreneurship and sector development in Ghana. The study investigates some of the key challenges facing SMEs in terms of their awareness of the various funding sources and availability of funds in their operation. To arrive at these objectives, two sets of questionnaires were administered to a sample of 270 participants from 25 SMEs from Greater Accra, Western, Central, Eastern and the Volta regions in Ghana. 5 MASLOC administrators and 5 NBSSI managers from the five regions mentioned above also participated in the study. The snowball sampling was used in sampling participants for the study. In order to determine the perception of ease of participants accessing the different financing schemes and to ascribe the quantitative value to the qualitative data collected more effectively to make the study amenable to statistical analysis, the Likert's type-rating scale, was used to measure the following: satisfaction with the different funding schemes; how frequent entrepreneurs have access to loans and grants; quality of service to rate participants' attitude towards funding accessibility and disbursement by government institutions. Qualitative data obtained from participants were coded, while the quantitative data/survey results were computed in percentage points based on response patterns and entered into an "SPSS" database application for predictive analysis for more meaningful insights into the collected data to predict future events and circumstances. In addressing ethical and confidential issues, the study sought the consent of the participants before administering the questionnaires and the interviews, and assured those concerned of anonymity and confidentiality, and vividly explained what the information gathered in the study would be used for. This orientation also helped the participants to become familiar and comfortable with the scope of information required; thus, they were confident to respond to the questions more appropriately.

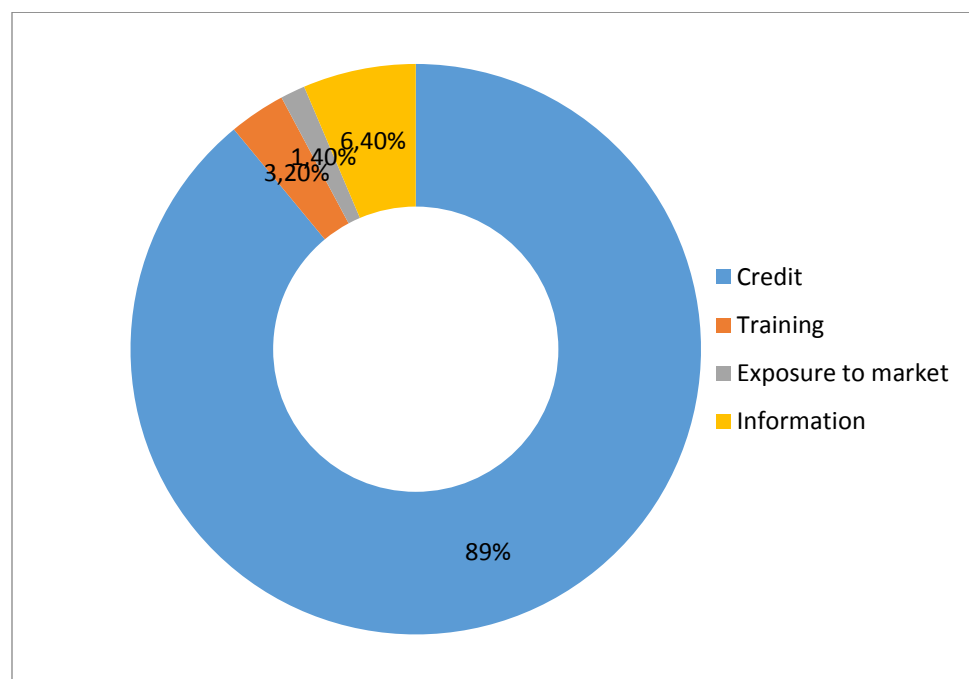
### **4. Results and Analysis**

#### **4.1. Characteristics of MSEs Surveyed**

The MSEs surveyed were those that had benefited from either the MASLOC or the NBSSI schemes or both. Out of the 270 respondents, majority of 78% had benefited from MASLOC while 14% have benefited from NBSSI. 8%

had benefited from other government schemes other than MASLOC and NBSSI. The revelation from the data is that though MASLOC was established in 2006, about two decades after the NBSSI was established, MSEs are benefiting from the MASLOC facilities than the NBSSI and other existing schemes.

**Figure 1: Nature of Benefits from MASLOC and NBSSI**



Source: Field Data (2017)

From Figure 1 above, 89% of the respondents benefited from credit facilities from both MASLOC and the NBSSI. 6.4% from the information on how to manage the MSEs, 3.2% have benefited from training while 1.4% of the MSEs benefited from exposure to markets. The inference from the statistics is that credit advancement is the main function of the government agencies. This is because in Ghana, most entrepreneurs go into business without adequate capital hoping to secure more once the business grows. The availability of financial resources allows entrepreneurs to bring together other factors and use them to produce goods and services to gain competitive advantage. Access to adequate funding is by far the most critical challenge facing entrepreneurs and SMEs' business start-ups and expansion. Since funding is the lifeline of any business, the predominant the response from participants was funding availability and accessibility. While capital remains indispensable to start a new business, most commercial financial institutions operate their loan schemes on high-collateral and/or on high-interest basis. Eventhough SMEs and the private sector are considered the backbone of the economies of most developing countries in terms of job creation and tax revenues, due to the high risk associated with new business start-ups, the commercial banks are often reluctant to lend money to new entrepreneurs. As a result of the rigidities and unfavourable loan system, especially due to the commercial banks' five 'C's qualification criteria namely; collateral, character, capacity, capital, and conditions, many entrepreneurs in Ghana are discouraged from applying for bank loans. As a result, many entrepreneurs and SMEs turn their attention to government and donor institutions' loans and grant programmes. Besides availability and accessibility of funding, the government's prime rate to the

commercial banks is excessively high. This has placed interest rates charged by Ghanaian banks in a very high range from 25% upwards depending on a bank's set rates for loans; and interest rates charged by the micro-credit agencies are even much higher. This finding reinforces the results of a survey on enterprise financing by Aryeetey et al (1994) that only 14% of credit advanced by banks went to SMEs.

#### **4.2. How well are the resources utilized?**

The government's NBSSI and MASLOC initiatives have had some positive outcomes. However, assessing the impacts and benefits of government programmes under these organizations', services for MSEs generally are woefully inadequate since the process has been bedeviled with several bottlenecks. Due to the lack of proper management skills, many business owners use money from their businesses without control and have no fixed salary since business income is not kept separate from personal expenses, and often not paid back into the business, considering its implications on the sustainability of the business. Sticking to budget is a challenge to some entrepreneurs, since a lot of them overspend way above their income and profits. Many entrepreneurs operating small businesses on sole proprietorship basis have no cost control mechanisms and working capital could be used to solve other personal or family problems. To justify the rigidities in lending and the high interest rate charges, some staff in the banks and microfinance institutions noted that due to the business culture of mismanagement of funds among some owners of SMEs, many entrepreneurs in Ghana have a problem of loan default, which has contributed to the difficulty in accessing loans from the traditional banks and the high interest rates (Manager, Ecobank, 2015).

Coupled with the lack of financing for capital investments and credit lines for working capital are the high taxes charged by the national and local governments such as income tax, the value added tax (VAT), high cost of energy, and the frequent power outages. These constitute some of the major challenges to the development and sustainability of SMEs. Lack of funds also has a ripple effect on the ability of the entrepreneurs and SMEs to afford the high cost of taxes, energy and other utility bills as well as transportation costs, which often results in high production costs leading to the crippling of some business operations in the manufacturing and distribution sectors. Other economic factors also influence entrepreneurship in many ways, especially the nature of the economy is a major factor that influences entrepreneurship since a strong economy is likely to provide better opportunities for new and existing entrepreneurs than a weak and sluggish economy. In a strong economy, the general purchasing power of people, which is manifested by income levels and economic prosperity plays a major role in the success of entrepreneurial ventures. Conversely, during times of economic slowdown or recession, the purchasing power declines and people are reluctant to invest, thus adversely affecting entrepreneurship development. Availability of resources is another major factor affecting entrepreneurial development in many developing countries. Since access to capital is crucial for the growth of every business, without a well-developed venture capital or equity market to support entrepreneurs in Ghana, it will be difficult for domestic entrepreneurs in Ghana to source capital for business start-ups.

Entrepreneurs who have participated in the NBSSI and MASLOC loan schemes over the years cited excessive government officials' control and politicisation of funding, victimisation of entrepreneurs and corruption as main reasons why many SMEs have gone bankrupt, especially those that are not supporters of a ruling government. In

many developing countries like Ghana, the political culture also fosters attitudes that militate against personal efforts, induce apathy and carelessness in the service to the public, and a careless attitude towards public funds and property. The politicisation of government loans to businesses has also led to the high default rate by borrowers who have the impression that by getting a loan from their party's government, they are being rewarded for their support, and loan defaulters are not punished due to their party affiliation. It is apparent from the above discussion that entrepreneurs and SMEs in developing countries face numerous challenges, which are diverse and complex, and require prudent measures by the government and its development partners to address them appropriately. These challenges have similar characteristics with the problems commonly associated with entrepreneurs and SMEs in Africa and the developing world.

## **5. Recommendations and Conclusion**

Based on the findings in this study, it could be argued that the NBSSI and MASLOC initiatives have not been successful enough to propel MSEs in Ghana to facilitate their growth and expansion to influence private sector development in the country. For this reason, it is important that the government takes a second look at existing policies and strategies and redesign effective ones to facilitate entrepreneurship development, new business start-ups and SMEs growth. The politicisation of government loans to businesses must also be eschewed. Resources must be made available to only qualified and deserving entrepreneurs irrespective of their political affiliations so that the phenomenon of borrowers thinking that by getting a loan from their party's government, they are being rewarded for their support, and that loan defaulters are not punished due to their party affiliation is brought to an end.

This study concludes with the view that domestic entrepreneurs and SMEs need to be an integral embodiment in government policies because unlocking private sector potential is key to sustained economic growth and development in Ghana. With the dominance of neo-liberalism and capitalism in the contemporary global system, state enterprises cannot be the panacea for citizens' job needs or solving the myriad of societal problems. Support for entrepreneurs and SMEs is one of the effective tools that should be at the heart of any government's private sector development initiatives towards achieving the new 2016 Sustainable Development Goals (SDGs) agenda which have been introduced by the United Nations to replace the MDGs.

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